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THE FEDERAL INCOME TAX LAW.

This law will establish in this country a form of taxation hitherto unfamiliar to most of the persons upon whom it will fall. It is estimated that almost five hundred thousand persons will be taxable thereunder, and as many more will be concerned to know if they come within its provisions. A survey of its salient features applying to individuals and a comparison with the Corporation Excise Tax Law of 1909, as to its corporation provisions, will therefore be of interest at this time.

The law is composed of two principal parts, one relating to the tax imposed on individuals and the other to the tax on corporation. The part relating to individuals is summarized briefly as follows:

Three classes of persons are primarily covered by the provisions of the law: (1) All citizens of the United States, whether residing at home or abroad; (2) All aliens residing in the United States; and (3) All aliens residing elsewhere, but owning property or carrying on a business, trade or profession in the United States.

The tax is levied on the entire net income arising or accruing from all sources in the preceding calendar year to resident or non-resident citizens and to resident aliens. As to non-resident aliens, it is levied on the entire net income from all property owned and of every business, trade or profession carried on in the United States.

The law classifies incomes into two kinds, gross income and net income. The tax is on the latter. Gross income includes gains, profits and income from every conceivable source except the proceeds of life insurance, endowment or annuity contracts paid to the insured or to his beneficiaries, including surrender values on such policies or contracts. Property acquired by gift, bequest, devise or descent is also excepted, but income from such

property is included. From the gross income is excluded interest upon the obligations of a state or any political subdivision thereof, of the United States or its possessions, and the compensation of all officers and employees of a state or any political subdivision thereof, except when paid by the United States Government.

From the net income certain specified deductions are permitted in order to arrive at the taxable net income for the purpose of the normal tax. These deductions are eight in number and include such items as the necessary expenses of carrying on a business; amounts paid as interest or indebtedness; amounts paid in taxes, with certain exceptions; losses incurred in trade or arising from fires, storms or shipwreck and not compensated by insurance; debts due the taxpayer actually ascertained to be worthless and charged off during the year; a reasonable allowance for depreciation of property used in business and a limited allowance for depletion of mines; amounts received as dividends from taxable corporations, amounts of incomes upon which the tax has been paid at the source.

No deduction may be made for personal, living or family expenses, but from his or her net income every person may deduct $3,000 if living alone, or $4,000 if living with wife or husband. In case both wife and husband living together, have incomes, only one deduction of $4,000 may be made from their aggregate income.

There are in fact two taxes, one called the normal tax and the other, the additional tax. The normal tax is at the rate of 1 per cent. upon all net income over the specific exemption of $3,000 or $4,000 as the case may be. The additional tax is imposed only when the total net income of a person exceeds $20,000. It is graduated from 1 per cent. to 6 per cent. as follows:

On the amount by which the income

exceeds	20,000	and does not exceed	50,000	1%
"	50,000	" " " "	75,000	2%
"	75,000	" " " "	100,000	3%
"	100,000	" " " "	250,000	4%
"	250,000	" " " "	500,000	5%
"	500,000			6%

Persons having a net income not exceeding $3,000 do not make returns. Persons whose net income is $3,000 or more, but not exceeding $20,000, will, in many instances, not be required to make returns. One, whose income comes from his salary, or from dividends on stock, or whose tax has been deducted at the source of the income need not make a return, unless he has other income or unless his income exceeds $20,000. Partnerships need not make returns of their income as the individual members account for all income of the partnership, but on request of the Commissioner of Internal Revenue, partnerships are required to report their profits and the names of those who would be entitled to the distribution of the same. With these exceptions all persons make returns.

Guardians, trustees, executors, administrators, agents, receivers, conservators, and all persons, corporations, or associations acting in any fiduciary capacity are required to make a return for the person for whom they act, of the net income coming into their custody, control and management. All persons, firms, companies, co-partnerships, corporations, joint stock companies or associations, and insurance companies, in whatever capacity acting, having the control, receipt, disposal or payment of fixed or determinable annual or periodical gains, profits and income of another person subject to the tax are required to make and render a return, separate and distinct, of the portion of the income of each person from which they have deducted the normal tax of 1 per cent., if such income exceeds $3,000.

Collection at the Source.

All persons, firms, co-partnerships, companies, corporations, joint stock companies or associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensations, remuneration, emoluments, or other fixed or determinable annual gains, profits, and income of another person, exceeding $3,000 for any taxable year, other than dividends on

capital stock of corporations, etc., are required to deduct and withhold such sums as will be sufficient to pay the normal tax—and are each made personally liable for such tax. But such tax need not be withheld prior to November 1, 1913.

If the person whose tax is so withheld desires to receive the benefit of the specific exemption of $3,000 or $4,000, as the case may be, he must file a signed notice with the person required to withhold the tax, claiming the benefit of such exemption. This notice must be filed at least thirty days before March 1st in each year. If he wishes to obtain the benefit of the other deductions permitted by the law from his net income he may file, as above, a return of his entire net income from all sources and of the deductions asked for, or he may likewise make application for deductions to the collector of the proper district.

Regardless of the amount of interest paid to any holder of bonds and mortgages or deeds of trust or other similar obligations of corporations, the normal tax must be deducted from each payment. In other cases of collection at the source it will be noted that the tax is not deducted unless the income so paid in the course of the year exceeds $3,000; as to interest on corporate bonds, etc., this minimum exemption does not apply. The same requirement as to deduction on any amount paid applies to coupons, checks or bills of exchange for and in payment of interest upon bonds of foreign countries, dividends on stock of foreign corporations engaged in business in foreign countries and interest upon the obligations of such corporations. This tax must be deducted by the banker or person who shall sell or otherwise realize such coupons, checks or bills of exchange, but applies only when such coupons, etc., are not payable in the United States. Persons, firms or corporations undertaking, as a matter of business the collection of foreign payments of such interest or dividends are required to obtain a license from the Commissioner of Internal Revenue under a penalty of fine or imprisonment.

In all cases the law places upon the taxpayer the burden of proving his exemption from the tax or obtaining a refund of the amounts paid on his income at the source.

Returns of income must be filed by persons on or before

March 1st in each year, covering the income for the preceding calendar year. Such returns are filed with the Collector of Internal Revenue for the district in which the person making the return resides or has his principal place of business. The law permits an extension of not exceeding thirty days from March 1st in which to file the return, if failure to do so on or before March 1st is occasioned by sickness or absence or any other good and sufficient reason. The law contains several penalties for failure to file the return or for making false or fraudulent returns or representations. The return for the year 1913 shall include only income received on and after March 1, 1913, and only five-sixths of the deductions allowed for the full calendar year may be deducted from the income reported for the year 1913.

After the return of income is filed with the Collector of Internal Revenue, it is forwarded to Washington where the Commissioner of Internal Revenue makes the assessment in the manner provided by law. Notice is thereupon sent the taxpayer of the amount due and such amount must be paid on or before the 30th day of June in each year.

Comparison of Corporation Tax.

The Corporation Tax Law of 1909 is re-enacted to cover the first two months of 1913, as the new law will not attempt for constitutional reasons to tax incomes received prior to March 1, 1913. One-sixth of this year's tax consequently will be collected as a special excise tax under the old law, while five-sixths will be collected as an income tax under the new law. One return, however, may be made for both the excise tax and the income tax for the year 1913, and one assessment by the Collector of Internal Revenue will cover both taxes.

The scope of the new law, in its application to corporations, is much broader than that of the old. The only classes of corporations excepted from the application of the new law, briefly speaking, are labor, agricultural or horticultural organizations, mutual saving banks, not having a capital stock represented by shares, fraternal beneficiary societies, domestic building and loan associations, corporations organized and operated exclusively for

religious, charitable, scientific or educational purposes, business leagues, chambers of commerce, boards of trade and civic leagues, when such corporations or associations are not operated for profit and the net income does not inure to the benefit of any private individual.

Under the old law, certain conditions were necessary to make corporations taxable—they had to be organized for profit, have a capital stock represented by shares, and be engaged in business. They were entitled to deduct $5,000 from their net income; dividends received by one corporation from the stock held in other corporations also subject to the tax, were permitted to be deducted. The new law does not require that the corporation shall be engaged in business, permits no deduction of net income and permits no deduction of income received from dividends of other corporations.

The deductions permitted from the gross income under the new law are practically the same as those heretofore permitted under the excise tax law. The more important changes are that the law now expressly provides for a reasonable allowance to be made for depletion of ores and natural deposits, not exceeding, however, 5 per cent. of the gross value at the mines of the output for the year. Also a corporation may now deduct from the gross amount of its income "the amount of interest accrued and paid within the year on its indebtedness to an amount of such indebtedness not exceeding one-half of the sum of its interest bearing indebtedness and its paid up capital stock outstanding at the close of the year, or if no capital stock, the amount of interest paid within the year on an amount of its indebtedness not exceeding the amount of capital employed in the business at the close of the year." Formerly interest paid on bonded or other indebtedness was deductible only to an amount of indebtedness not exceeding the issued capital stock of the company. The law also provides that in case of indebtedness wholly secured by collateral, the subject of sale in ordinary business, the total interest secured and paid may be deducted as a part of the expense of doing business.

Life insurance companies are authorized to exclude from their net incomes the so-called dividends on policies paid back or

credited to the holders thereof or treated as an abatement of premium of such policy-holders.

In the case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax is allowed.

Returns by corporations shall be made as heretofore on or before the first day of March in each year, and extensions of time may be obtained not exceeding thirty days if failure to file the return in time is occasioned by sickness or absence of an officer or other good reason. One important change from the former law is that corporations may, by filing proper notice with the Collector, file their return within sixty days after the close of their fiscal year and may report income received during such fiscal year, instead of during the calendar year.

The tax of corporations filing their returns of net income on or before March 1st shall be paid on or before June 30th next following. Corporations which have been permitted to make returns within sixty days after the close of their fiscal years are required to pay their taxes within one hundred and twenty days after the days on which their returns of income are required to be filed.

New Duties and Liabilities.

One important provision of the income tax which will impose new and unfamiliar duties on corporations is that relating to collection at the source. On every payment of salary exceeding $3,000 per annum, on every payment of interest on its bonds or other obligations, regardless of amount, on every payment of rent exceeding $3,000 per annum, to mention only a few specific instances, the corporation must withhold and pay to the Internal Revenue Collector an amount sufficient to pay the normal tax thereon. In each case where a deduction is made, the corporation must list the amount so deducted and give the name and address of the person from whose income the deduction was made. Failure to so withhold the tax will make the corporation liable for the amount. Corporations will also be charged with receiving and filing notices of exemption and returns of income of its employees, bondholders and others who may claim exemptions or deductions in the taxes paid by it for them.

—Corporation Trust Company Journal.